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C O N F I D E N T I A L SECTION 01 OF 02 PRETORIA 004786

SIPDIS

DEPT FOR AF/EPS AND AF/S/TCRAIG AND KGATHER
DEPT FOR EB/TRA/AN/CDEMARS, LFAUX-GABLE AND BGRIMM
TRANSPORTATION FOR SMCDERMOTT, KBHATIA, GRETCH
COMMERCE FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
TREASURY FOR GCHRISTOPULOS, LSTURM, AND AJEWELL
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SUBJECT: MINISTER RADEBE ON OPEN SKIES

Classified By: Acting Econ Chief Alan Tousignant. Reason 1.5 (B/D).

1. (C) SUMMARY. U.S. Department of Transportation's (DoT) Deputy Assistant Secretary for Aviation and International Affairs Susan McDermott met with South Africa's Minister of Transport Jeffrey Radebe and Dr. Ian Phillips, Special Advisor to the Minister, on October 27, 2004 at the Minister's parliamentary office in Cape Town. The meeting followed up on an Open Skies discussion between Radebe and U.S. Secretary of Transportation Norman Mineta at the 35th ICAO Assembly in Montreal, September 2004. Radebe acknowledged Open Skies benefits outlined by McDermott and called for the United States and South Africa to form "technical teams" to discuss a proposed Open Skies agreement. Restructuring and new management at Transnet, South Africa's administrator of state-owned transportation enterprises, may make this an auspicious time to engage South Africa on an Open Skies agreement. The Minister expressed keen interest in the organizational structure of the U.S. Department of Transportation (DoT). McDermott invited Radebe to visit Secretary Mineta in the United States and to meet with DoT administrators. END SUMMARY.

2. (U) Department of Transportation (DoT) Deputy Assistant Secretary for Aviation and International Affairs Susan

SIPDIS

McDermott met with South Africa's Minister of Transport Jeffrey Radebe and Dr. Ian Phillips, Special Advisor to the Minister, on October 27, 2004 at the Minister's parliamentary office in Cape Town. The meeting was scheduled to follow up on an Open Skies discussion between Radebe and U.S. Secretary of Transportation Norm Mineta at the 35th ICAO Assembly in Montreal, September 2004.

3. (U) Radebe (pronounced "ha-Day-bay") and Phillips warmly greeted DAS McDermott. McDermott briefly mentioned the Safe Skies for Africa Aviation Security Workshop taking place in Johannesburg from Oct. 26-28. She also thanked Radebe for the good relationship that exists between South Africa and the United States and expressed her hope that the relationship could be expanded through increased aviation collaboration.

AN OPEN SKIES OVERVIEW - DAS MCDERMOTT

4. (SBU) McDermott provided a thorough overview of Open Skies and detailed likely benefits to tourism, trade, as well as more accessible and affordable transportation for passengers and cargo. Although the United States is not fully utilizing its current bilateral agreement with South Africa, McDermott emphasized the importance of a broad aviation framework for future growth. She said a liberal aviation agreement such as Open Skies conveys a message that South Africa is "open for business," flexible, and committed to unlimited commercial opportunity. McDermott cited LAN Chile as an example of how an Open Skies agreement can not only increase regional aviation services, but also dramatically improve the profitability and efficiencies of an airline. She said that South Africa is well positioned to accomplish similar results in Africa. McDermott said, however, that because of Africa's high cost of transport, potential players are squandering many African Growth and Opportunity Act (AGOA) preferences and said, "You can't trade if you can't get there."

5. (SBU) McDermott also reviewed the important role of codeshares and alliances in servicing communities and in developing a global aviation network. She explained the benefits of anti-trust immunity and said it may be considered only for Open Skies partners involved in pro-competitive codeshare arrangements. In conclusion, McDermott said she appreciated the opportunity to present two ideas for Radebe's consideration: 1) Open Skies as a market development tool and a welcome sign for investment; and 2) a vital tool of real benefit to South African Airways (SAA) as it moves into a global alliance arrangement.

RADEBE'S RESPONSE

17. (C) Radebe (previously the Minister of Public Enterprises) thanked McDermott for her comprehensive overview of Open Skies and agreed that without transport links, trade cannot develop to its full potential. Radebe acknowledged that this problem is crippling Africa's development. Reviewing the importance of intra-African integration, he said that the Yamoussoukro Declaration and Decisions aim to liberalize Africa's aviation industry in the same manner as Open Skies. The Minister said that "regrettably" not much has been implemented. However, he said that African Ministers of Transport would meet in South Africa during the first quarter of 2005 to further the Yamoussoukro accord.

18. (C) Radebe was clear in his belief that an Open Skies agreement would benefit the development of aviation services in Africa and said that South Africa was "committed to do everything possible" to liberalize Africa's skies. He said that while many fear an Open Skies agreement means South Africa would be "gobbled up" by U.S. air carriers, the LAN Chile experience was reassuring. Radebe said his primary responsibility as Minister was to oversee the expansion and accessibility of transportation (including aviation) services rather than the promotion and protection of SAA. He said that Open Skies "looks compelling." He called on the United States and South Africa to form "technical teams" to look at the "details" of an Open Skies interaction between South Africa and the United States.

19. (SBU) McDermott responded that Secretary Mineta would be encouraged by this development. When she sought to clarify whether these teams should conduct exploratory discussions or negotiations towards an Open Skies agreement, Radebe asked that they look at "all the details." He also indicated that Department of Transport Director General Wrenelle Stander should be contacted to initiate these talks.

RADEBE CURIOUS ABOUT DoT STRUCTURE

10. (SBU) Over lunch, Radebe praised South Africa's emerging low-cost airline industry, said that privatization is not dead, and identified key Yamoussoukro partners (Kenya, Ethiopia, Nigeria). He expressed keen interest in the organizational structure of the U.S. Department of Transportation. He questioned McDermott about the role of the FAA and asked who has responsibility for rail, roads, maritime services, traffic control, and state police. After responding to Radebe's questions, McDermott invited the Minister to meet with Secretary Mineta in the United States and to see how the various DoT Administrators operate.

11. (C) COMMENT. Radebe's expression of support for Open Skies is encouraging as is his invitation to the United States to initiate bilateral talks between "technical teams." Although promising discussions with previous Minister of Transport Dullah Omar in the early 2000s failed to produce an Open Skies agreement, the commercial environment has changed. SAA has suffered two years of massive hedging losses totaling R15 billion (about \$2.38 billion). SAA's Board of Directors and senior executive management have been replaced in the last year. In addition, new management at Transnet, South Africa's administrator of state-owned transportation enterprises, is no longer willing to protect SAA inefficiencies. Transnet's new CEO, Maria Ramos (former DG of National Treasury), said earlier this year that she does not consider SAA to be a core business of Transnet. Public Enterprises Minister Alec Erwin is publicly supporting Ramos. Accordingly, SAA has been removed from Transnet and is currently reporting directly to the Department of Public Enterprises. SAA can no longer count on the political protection it formerly received from the Government. The recent emergence of new low-cost airline competitors (e.g., Kulula, 1Time) may also make this an auspicious time to engage South Africa on an Open Skies agreement. Post encourages Washington to follow up on the opportunity to further develop bilateral discussions. END COMMENT.

12. (U) This cable was cleared by DAS McDermott.

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